



Public Employee Retirement System of Idaho

PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO
607 North 8th Street
BOISE, IDAHO 83702

MINUTES

OF
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:29a.m., February 27, 2001. The following members were present:

Chairman Jody B. Olson
Dennis L. Johnson
Susan K. Simmons
Pamela I. Ahrens
J. Kirk Sullivan

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Chief Investment Officer Robert Maynard, Deputy Director Ted Aho, Financial Officer James Monroe, Medical Advisors B. Strouth, John Mather, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Richelle Sugiyama	Dorn, Helliesen & Cottle
Doug Dorn	Dorn, Helliesen & Cottle
Bob Helliesen	Dorn, Helliesen & Cottle
Drew Black	D.B. Fitzpatrick & Co
Rod MacKinnon	Mountain Pacific Investment Advisors
Bruce Reeder	Mountain Pacific Investment Advisors
Robert Schmidt	Milliman & Robertson, Inc.
Charlie Brown	Retired Teachers Association of Idaho
Lucinda Smith	Mellon Trust
Connie Tackett	Russell/Mellon
Wendy McCall	Russell/Mellon
Brent Nye	Boise School District
Jane Buser	BSU
Rhonda Yadon	PERSI
Judy Aitken	PERSI

EXECUTIVE SESSION:

Chairman Olson noted for the record the necessity to hold an executive session to discuss matters exempt from disclosure as provided in Chapter 3, Title 9, Idaho Code and that Idaho Code §67-2345 (1)(a)(b) and (d) authorizes the same. By motion duly made by Trustee Simmons, seconded by Trustee Ahrens and unanimously approved, the Board went into executive session at 8:32 a.m.

After discussion of each disability application and personnel matters, the Board resumed the regular session at 8:55 a.m. By motion duly made by Trustee Sullivan and seconded by Trustee Johnson, the Board unanimously approved the disability applications of Mark Ketelsen, Larry Motzner, Terry Mullinix and Virginia Somerville with no review; D. Berdean Dahlke and Dwight Ulery with a review in one year. In the same motion, the application of Marilyn Krings was denied, not meeting PERSI plan requirements. The application of Roy Applewhite was held over for discussion at the March meeting so PERSI staff can obtain further information for the Trustees. The application of Michael Gantz had been approved during the month by VPA, with no review recommended.

OLD BUSINESS:

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Johnson, the Board unanimously approved the minutes of the January 23, 2001 regular meeting of the Retirement Board.

PORTFOLIO

Mellon Report: Lucinda Smith introduced Connie Tackett and Wendy McCall of Russell/Mellon. They discussed the report, which had previously been furnished to the Trustees. They reviewed individual manager performance and PERSI's performance compared to that of peer groups. In the current unfavorable environment, PERSI's total fund lost 2.7% for the quarter and ranked in the 49th percentile of the TUCS All Master Trust Universe. For the year, the fund backtracked a total of .4% and ranked in at a slightly below average 56th percentile in the same universe. However, over the intermediate term, the picture is brighter as the fund earned 11% for three years and 13.2% for five years, and ranked in at a respectable 32nd and 42nd percentile, respectively. On a relative basis for the one and two-year periods, the fund returned 4.4% and 3.9% above its total fund blended benchmark, which the report noted is a sizable margin. For longer time periods of three, four and five years, the fund continues to outperform its target benchmark by a smaller margin. Fixed income, including DBF Idaho Mortgages and theTIPS program, was the best performing sector.

Monthly Portfolio Update Mr. Maynard reviewed his Investment Report dated February 27, 2001, an update from the report previously provided to the Board. He said the uncertainty continues, with earnings concerns and some signs of more serious economic and earnings slowdowns (including a slight hint of US stagflation) all combining to pressure world equity markets. There is a general consensus that the Federal Reserve Board will continue to lower interest rates sharply over the next few months. The total fund and each of the accounts are performing better than expected given the current market conditions. Growth oriented managers are having difficult times, both absolutely and some against their benchmarks, as are international managers. Fixed income and value-oriented managers are softening the losses,

with Brandes and Mountain Pacific, in particular, helping overall fund returns. Active managers are helping; if the fund had been totally passively managed, the returns would be much lower. Mr. Maynard is maintaining close contacts with the managers to ensure they are not changing their investment styles in these difficult markets.

Portfolio Report: Doug Dorn and Richelle Sugiyama of Dorn, Hellieson and Cottle reviewed their report for the period ended January 31, 2001, which had previously been furnished to the Board. Mr. Dorn explained how the stock/bond spread is an indicator of how to weight the allocation. He discussed personnel changes of our managers, noting a name change to Zurich Scudder Investments Inc., but no personnel changes there.

Investment Manager Selection Report – Phil Suess of Mercer, Inc., told the Board that Robert Maynard and Doug Dorn had discussed a draft of the report earlier with him. The screening process followed by Mercer was outlined. The universe of investment options to be considered included the Morningstar, Inc., mutual fund database as well as Mercer's proprietary institutional Global Investment Management Database. Also included were funds PERSI specifically asked to have in the process -- Nationwide, TIAA –CREF, VALIC, and Mellon/Dreyfus. Mercer utilized the Mercer Performance Analysis System to further analyze the data. All selected funds are required to facilitate daily pricing and liquidity requirements.

Minimum requirements include firms managing assets for at least five years; with at least \$1.0 billion of assets under management; with a competitive and preferably negotiable fee schedule; with a significant presence in the tax-exempt account arena; with a low level of personnel and client turnover; those not involved in any major litigation in this area; with products that can accommodate daily pricing; licensed to do business in the State of Idaho and registered as investment advisors with the SEC. The emphasis on three and five year time periods provided a longer term look at fund performance.

The report provided details in each of these areas and recommended the following managers and products:

Active Managers:

Large Cap Core Equity – **Vanguard Growth and Income**
Mid Cap Core Equity – **Dreyfus Premier Mid Cap Stock R**
Small Cap Core Equity – **Aetna Small Company I**
International Equity Core – **Brandes International Institutional Equity**
Core Plus Fixed Income – **Dodge & Cox Income**
Stable Value Fixed Income – **SEI Stable Asset Fund**

Passive Managers:

S&P 500 Index – **Mellon EB Daily Liquidity Stock Index**
Wilshire 5000 Index – **SSgA Wilshire 5000 Index**
Lehman Brothers Aggregate Index – **Mellon EB LB Aggregate Index Fund**
EAFE Index – **SSgA EAFE Index**

Chief Investment Officer Robert Maynard answered questions from the Board regarding the recommended firms. By motion duly made by Trustee Sullivan seconded by Trustee Johnson and unanimously approved, the Board approved the selection of the asset classes and the investment managers recommended in the Mercer Report; the selection of each investment manager is conditional on their acceptance of terms and conditions proposed by PERSI.

Other Investment Business: The Chairman opened the floor to comments from managers who were attending the meeting. Managers discussed the slowing economy, noting that only a few economists predict “stagflation,” slow economic growth that generates inflation. They indicated that Idaho’s economic mix is changing as it moves more toward technical companies.

COMMUNICATIONS

After viewing the fifteen-minute video, which will be distributed to all PERSI active members along with a workbook, the Board asked Communications Officer Becky Crowther how the film was produced. Ms. Crowther said she and her staff worked with ETI, our education vendor, on content. We reviewed the storyboards and ETI put it together for the final video. People who also work for Disney did the animation. We wanted a short video to introduce the concepts and give an overview to our members. In response to a question from Trustee Ahrens, Ms. Crowther said the cost of the video was part of the ETI contract. Their contract price would not have been reduced if we had used another vendor to produce the video. They will cost about \$1.30 each including shipping. The portability of the Choice Account was briefly discussed.

FISCAL

Expense Reports: Mr. Monroe reviewed the Portfolio and Administrative Expense Reports for the month of January 2001. 1. This report shows the cost of printing the member handbooks and also the additional office space to accommodate the DC staff.

Financial Statements: Senior Accountant Rhonda Yadon reviewed the PERSI and Sick Leave unaudited financial statements, reviewing capital outlay for equipment attributed to gain sharing. Higher premiums, no legal fees and more teachers retiring during this period were given as reasons for the differences between the current and former year numbers in the sick leave report.

EXECUTIVE DIRECTOR

Legislative Update: Commenting on the Financial Statement Report, Mr. Winkle told the Board that even with the gain sharing expenses, it still appears that administrative expenses will fit within our 50 basis point target. PERSI bills have passed the House and are awaiting hearing in the Senate Commerce and Human Resource Committee. One bill not sponsored by PERSI, which asked for police-officer status for a position in the Outfitters and Guides agency, died on the floor of the House. A second bill to lower the costs for veterans to buy back service was held in committee. Committee members were concerned that only a few would benefit at a cost to the entire PERSI membership. Chairman Olson congratulated Trustee Johnson on his Senate confirmation to a second five-year term on the PERSI Board.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. We have PERSI staff testing the Galena system and working directly with programmers to immediately address problems. We hope by the end of March to have the transmittal system up and running.

Phase One of Gain Sharing is complete. Employer credits started February first, retirees received their 13th check in mid-January, and active member allocations to gain sharing accounts were made February 1 at January 31 prices. With the Board selection of investment managers, staff will target a May 1, 2001 date for investment choice in the Choice plan. We will be ready

before July to accept employee voluntary and employer lump-sum contributions the Choice plan. This work will be in addition to the education program of videos, workbooks and face-to-face seminars. Mr. Winkle noted that phone calls to PERSI have significantly increased. After July 1, Phase Three will begin as we merge the Idaho Super Saver into the Choice Plan and allow loans and hardship withdrawals from the plan. He commended Mellon Trust, saying they have done an outstanding job working through the challenges of setting up the record keeping.

Mr. Winkle told the Board that we have found a coding error in our FRF records. Our research shows that during the 1976 legislative change, six employees were coded incorrectly which has resulted in inaccurate FRF contributions and benefits. Within a week we expect to have the calculations complete and contact the members and employers to work out payments. Mr. Winkle is scheduled to speak at the FRF convention tomorrow and will discuss any questions members have on this issue. He has also been asked to meet with the magistrates and discuss different plan designs, exterior to PERSI, with them. On March 7, he will travel to Idaho Falls to talk with Idaho school administrators and teachers, answering their questions and concerns about Gain Sharing.

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson, seconded by Trustee Sullivan and unanimously approved, the meeting was adjourned at 11:04 a.m.

FUTURE BOARD MEETINGS

Tuesday, March 20, 2001, 8:30 a.m., Boise - PERSI office
Tuesday, April 24, 2001, 8:30 a.m., Boise - PERSI office
Tuesday, May 22, 2001, 8:30 a.m., Boise - PERSI office

Jody B. Olson
Chairman

Alan H. Winkle
Executive Director